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BRITAIN, THE UNITED STATES AND THE COMMON MARKET

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BRITAIN, THE UNITED STATES AND THE COMMON MARKET

A MOMENTOUS DECISION confronts Great Britain: Shall it break with ancient tradition to join the continental powers of Western Europe in an economic union that may one day become a political union? Or shall it hold fast to its position as an island nation, leader of a world-wide commonwealth whose members have close economic ties and close ties of sentiment, one with another? The question is growing urgent because Britain faces a deep-seated economic crisis. While the country is currently prosperous, the exports by which it lives are lagging and its industrial production is not expanding as rapidly as that of European rivals. Meanwhile, lively economic progress among member countries of the European Economic Community or Common Market emphasizes the disparity of the British position.

The seemingly obvious solution of the problem would be for Britain to join the Common Market and thereby put British manufacturers in position to compete for continental markets on equal terms with French, German, and other manufacturers. But the answer is not so simple. For nearly 30 years, members of the British Commonwealth have enjoyed trade preferences in the British market which, as matters stand now, would be lost if the United Kingdom went into the European Economic Community. Britain's subsidized farmers likewise would be adversely affected. And the British have commitments to other members of the European Free Trade Association, a group that was formed after failure of London's initial effort to come to terms with the Common Market.

Prime Minister Harold Macmillan's government cannot ignore the interests of these groups. The trouble is that leaders of the European Economic Community have not been disposed to make the compromises that would be needed to safeguard those interests. They have indicated

that Britain must accept the Common Market as it is or stay out. Whether the pressure of events, in Great Britain or elsewhere, will in time contribute to solution of the problem remains for the future to unfold. It has been suggested that the question, now or soon, may involve the unity of the West, and that to preserve that unity the European Economic Community should be expanded into an Atlantic Economic Community, taking in not only Britain but also the United States and Canada. However that may be, the factors involved in the more limited question of British entry into the Common Market are themselves so extensive and diverse as to make plain how difficult will be the ultimate decision.

Search for Means of Economic Adjustment

Ever since France, Italy, West Germany and the Benelux countries (Belgium, Netherlands, Luxembourg) signed the Treaty of Rome on March 25, 1957, establishing the European Economic Community, the United Kingdom has been searching for ways to meet the economic challenge posed by an eventually tariff-free common market on the Continent. The European Free Trade Association was set up in 1959 by Great Britain in association with Austria, Denmark, Norway, Portugal, Sweden and Switzerland to lower trade barriers among those countries and at the same time provide a bargaining weapon for use in negotiations with the E.E.C.[1] But Prime Minister Macmillan's government gradually has become convinced that only through membership in the Common Market can the United Kingdom assure itself of a full measure of increased European trade. Foreign Secretary Lord Home declared in the House of Lords on June 21 that Britain could no longer "afford to stay out." He not only asserted that membership would be in the best economic interest of the United Kingdom, but also said that "In face of the Communist challenge . . . I believe it is necessary for the survival of the free world."

French President Charles de Gaulle had observed the day before that he hoped Britain would join the Common Market, but at the same time he warned that it could not expect to occupy a special place. The United Kingdom should be admitted "as soon as it can and wants to observe, along with other members, all the rules and obligations"

[1] Finland became an associate member of EFTA on July 1, 1961, while Greece became an associate member of E.E.C. on July 9.

prescribed by the Treaty of Rome.[2] Britain, whose political institutions have survived the upheavals of centuries, has been reluctant to delegate any of its sovereign rights to the supranational authority of the governing bodies of the European Economic Community. Although the Treaty of Rome represents a delicately balanced compromise of the separate economic and political interests of the original signatories, Macmillan told the House of Commons on May 9 that Britain could not simply adhere to the treaty as it stands. British adherence would have to be "subject to a protocol or agreement" respecting Commonwealth trade, British agricultural interests, and the interests of other EFTA nations.

GROWING STRAINS ON ECONOMY OF GREAT BRITAIN

The lag in British economic growth has become evident in the past two years. The United Kingdom had a deficit of $963 million in its over-all balance of international payments in 1960, following a surplus of $143 million in 1959, mainly because British exports failed to achieve the crucially important increase needed to balance the country's international accounts. While Britain imported products worth $12.8 billion in 1960, its exports came to only $9.9 billion. A part of the gap in merchandise trade was closed by expenditures of foreign tourists in the British Isles, by earnings from oil holdings abroad and from financial and shipping services for foreigners, and by receipts from overseas investments.[3] However, net receipts from such items amounted to only $61.6 million in 1960 as against $1.1 billion a decade ago. The unfavorable balance-of-payments position resulted in a severe drain on British reserves of gold and foreign currencies and in a decline of the pound.

Inflation also poses a threat to the stability of British currency. Although production has been stagnant for a year, only 1.2 per cent of the labor force is unemployed and prices keep rising. A rise in the price of steel of $1.40 a ton last month is likely to boost consumer prices further and hamper exports. Addressing the British Chambers of Commerce in London on June 22, Selwyn Lloyd, Chancellor of the Exchequer, said he did not think that "as a nation we

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[2] Any European state is eligible for membership in the Common Market, but admission requires the consent of all six of the founding members.

[3] Britain paid out $70 million more to have its cargoes hauled by foreign ships in 1960 than its own ship operators collected for handling foreign cargoes.—Frank Linge, "Sterling's Struggle," *Wall Street Journal*, June 23, 1961, p. 1.

can go on with wages and salaries rising at the rate at which they have been increasing lately."

Instead of pursuing a policy of expansion urged by some liberal economists, the government is expected to impose extensive restrictions. The Exchequer's view seems to be that the best way to improve the balance of payments is to limit domestic demand, thus curbing imports and freeing goods for export. Measures contemplated include a tightening of credit and sharp increases in excise and sales taxes. These weapons have been used in past postwar crises to protect the pound and improve reserve holdings.

Because the gold and foreign currency reserves still exceed $2.7 billion, no devaluation of the pound is expected. However, cutbacks in foreign aid and overseas defense commitments are under consideration. Lloyd said on June 22 that Britain had to reduce its overseas military spending: "We are trying to do too much. We spent our savings in two World Wars to defend freedom; we have spent money out of all proportion to our resources since the war. . . . In saying that we must reduce government overseas expenditure, I am not at all apologetic." [4]

To increase foreign earnings, British industry is conducting an intensive examination of prospects for exporting specific products to specific countries. A vigorous effort is believed necessary, for example, to expand British shipbuilding for Norway. Inadequate credit terms, failure to underbid competitors, length of time taken for building, and failure to meet delivery dates are regarded as major deterrent factors. Exploitation of the market in Western Europe for machine tools is reported to have been held back because British machine tools are sometimes more powerful, of higher quality, and more expensive than necessary for the jobs in hand.[5] However, the European market for British products like textile machinery, appliances, electronic equipment, and agricultural machinery is promising, and the government now seems convinced that membership in the dynamic, expanding European Economic Community would provide the spark needed to stimulate the British economy.

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[4] Seven brigade groups in West Germany cost Britain $200 million a year, and its outlay of foreign currencies for military purposes is in excess of $800 million. London is trying to reduce the net outlay by getting the Germans to buy more defense supplies in England.

[5] "Britain and Europe," *The Statist*, May 20, 1961, p. 631.

THREAT TO BRITISH EXPORT SALES ON CONTINENT

British industry views growth of economic competition from Common Market countries with increasing uneasiness. Exports from those countries have increased by more than 21 per cent since 1958, while British exports have gone up by only 8 per cent. Industrial production among the Six, moreover, has risen by almost 80 per cent since 1953, while that of Britain has increased by only 30 per cent.

Edward Heath, Lord Privy Seal, said in the House of Commons on May 17 that "We see today in Europe a powerfully developing group of nations" whose "strength is shown by its size of over 170 million people, compared to 50 million in the United Kingdom and rather under 90 million in EFTA as a whole." The combined gross national product of the Common Market countries is two and one-half times that of Great Britain. The area is the world's largest producer of steel. Members of E.E.C. together constitute the world's largest importing unit and the world's second largest exporting unit.

Competition within the Community can be expected to lead to productivity gains, while the stimulus to investment afforded by a market with an active working population of more than 74 million people can be expected to accelerate economic growth. Industry, especially the large industrial complexes, are pushing production at a rapid pace. Employment and wages have climbed steadily. Iron and steel production has risen by 75 per cent since resources and facilities in that field were put under common direction by formation of the European Coal and Steel Community in 1952.[6]

The European Economic Community is in a strong balance-of-payments position. A cut in internal tariffs of more than 30 per cent in the past three years has already brought in a substantial volume of new capital. Indeed, the flow of American and British capital to the Continent may well interfere with the modernization of British industrial plant needed for competition in world markets unless the United Kingdom itself becomes a member of the Community. Walter Hallstein, president of E.E.C., has written that the Six are looking "forward to an annual

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[6] Robert L. Heilbroner, *Forging a United Europe* (Public Affairs pamphlet, January 1961), p. 7.

rate of growth of between 4 and 5 per cent" in the long run. The rate has been well above that figure in the past two years, while the United Kingdom has been registering a growth rate of only about 2½ per cent.

AMERICAN SUPPORT OF THE UNIFICATION OF EUROPE

The United States has been a strong advocate of the economic and political unification of Europe ever since World War II. When Congress authorized the Marshall Plan for aid to European recovery, it declared that it was the "policy of the people of the United States to encourage the unification of Europe." Paul G. Hoffman, first head of the European Cooperation Administration, repeatedly urged the Marshall Plan countries to integrate their economies into a single large market free of impediments to trade.

As NATO commander, Gen. Eisenhower firmly supported both the political and economic unification of Western Europe. Speaking in London, July 3, 1951, he declared that "Europe cannot obtain the towering material stature possible to its people's skills and spirit so long as it is divided by patchwork territorial fences." Later, as President, Eisenhower gave full support to the Treaty of Rome. President Kennedy likewise has come out for an economically and politically unified Europe. Issuing a joint communiqué with West German Chancellor Konrad Adenauer on April 13, Kennedy stressed "the important role of the European Community as a powerful and cohesive force in the core of the Atlantic community." The communiqué of the two leaders stated that "The dynamic political and institutional potential of the E.E.C." was "an important element of present strength for the Atlantic community."

The United States has shown little enthusiasm for the European Free Trade Association because it lacks political goals. The Kennedy administration has abstained from applying pressure on Great Britain to join the Common Market, but it reportedly would welcome that step on London's part. Participation of the United Kingdom could be expected to strengthen the European Economic Community and enable it to contribute far more to the underdeveloped nations and to the free world's defenses against growing Communist pressures.[7] British member-

[7] "Britain on the Brink of 'Joining' Europe," *Business Week*, May 13, 1961, p. 40.

ship, moreover, would make it more than ever certain that the E.E.C. group of countries never would flirt with the idea of becoming a third force in the East-West struggle in place of continuing to give firm support to the Western alliance.

A more inclusive European community might have an important impact on United States trade. Although overall demand in a common market embracing 250 million people would probably expand rapidly, eventual elimination of tariffs on trade between West Germany and the United Kingdom would make the competition extremely stiff for American exporters. Kennedy reportedly has told Macmillan that the United States would be prepared to accept some of the resulting handicaps to its exports in return for progress toward political unity in Europe.

Great Britain and European Unification

PLANS to bring about some degree of unification in Europe have been advanced periodically for centuries. The Great Design of Henry IV of France included a scheme for free trade in a continental federation. Although France has been the leader in proposing plans for European union, the need for unification has received prominent British recognition. Clement Attlee declared on Nov. 8, 1939, a few weeks after outbreak of World War II, that Europe must "federate or perish," and on March 21, 1943, Winston Churchill envisioned formation of a Council of Europe "with a high court to adjust disputes." When peace came, it was Churchill who, in an address at Zurich, Sept. 19, 1946, sparked revival of the movement for European union.[8]

Common economic troubles and common external threats forced the nations of Western Europe to resort increasingly after the war to measures of cooperation. Events made it clear, however, that advocacy of European union by the British did not necessarily signify support of British

[8] Churchill was the moving spirit in the Congress of Europe, a gathering of European federalist groups at The Hague in May 1948 which led directly to establishment of the Council of Europe at Strasbourg. The Council consists of a Committee of Ministers and a larger Consultative Assembly. While these bodies lack effective power, their meetings have served as forums for advocates of political unification. See "European Unification," *E.R.R.*, 1952 Vol. I, p. 17.

membership in continental groups to which effective power would be delegated. Attlee's Labor government and Churchill's Conservative government both opposed participation in supranational European organizations. Britain, with its Commonwealth ties and world-wide interests, looked upon itself not as a European power but only as a friend of the continental countries and a proponent of their federation.

A statement by the British Embassy in Washington on Dec. 17, 1951, explained that the United Kingdom's "position as the center and focus of the Commonwealth inevitably tends to draw Britain outside the European continent and renders impossible the subordination of sovereignty." It affirmed that "Five hundred years of history have caused the people of Britain to look outward over the world" and that "A policy tending towards isolation in Europe from the rest of the world would be an unnatural denial of that history."

United Kingdom and the Coal-Steel Community

The virtual impossibility of fully federating at one stroke a group of independent countries with different traditions, languages, and economic characteristics turned the attention of advocates of union to the limited but more promising prospects in the so-called functional approach. The leading example of that approach was the Schuman plan to integrate the coal and steel industries of Western Europe. First proposed by the French foreign minister on May 9, 1950, the plan for a European Coal and Steel Community was embodied in a 50-year treaty signed on April 18, 1951, by the six countries that were later to form the European Economic Community. The plan, which went into force in July 1952, constituted the initial step toward complete integration of the economies of these nations in a single large market free of impediments to trade. Britain held aloof, but tariffs and quantitative restrictions on imports and exports of coal and steel among the six powers, which together produce three-fifths of Western Europe's steel and nearly one-half of its coal, were gradually eliminated.

Producer agreements tending to restrict competition in these products were outlawed, and free movement of experienced coal and steel workers from country to country within the community was safeguarded. Administration and enforcement of the treaty provisions were put in the

hands of a miniature international government to which the participating countries delegated authority for that purpose. The dominant goal of the Schuman plan was to achieve treatment of the coal and steel industries of the member countries as if no national boundaries existed.

The advantages of this arrangement were made apparent by the ensuing expansion of production and trade in coal and steel. The success of the experiment provided momentum for further political and economic integration among the Six. After negotiations extending over a period of more than two years, they signed a treaty in Rome on March 25, 1957, creating both the European Economic Community and the European Atomic Energy Community.[9]

Treaty of Rome and the Economic Community

The Treaty of Rome, which included provisions for progressive coordination of the fiscal, monetary and labor policies of the signatory countries, made the Common Market an economic union rather than simply a customs union. Administration of the affairs of the union, moreover, was entrusted to supranational executive, legislative and judicial institutions.[10] The members of the Community regard it as a stepping stone to political integration in a United States of Europe.

The European Atomic Energy Community illustrates, perhaps better than the Economic Community, the supranational character of the new agencies. EURATOM holds title to all fissionable materials within the six member countries with the exception of supplies diverted to military use. It purchases, distributes, and exercises continuing control over the fissionable materials, builds and operates certain basic nuclear facilities for the common benefit, and helps to finance nuclear projects undertaken on a national basis by community members.

Executives in charge of steel and coal marketing, of atomic development, and of trade have power to make many decisions without consulting the individual governments. Day-to-day administration of the communities is in the

[9] An agreement to form a European Defense Community, signed May 27, 1952, foundered in 1954 when the French National Assembly declined to ratify. See "European Economic Union," *E.R.R.*, 1957 Vol. I, p. 228.

[10] Unless the transition period is shortened, the Common Market will not be fully operative until 1969. At that time all customs duties and other restrictions on trade among the member countries will have been removed. See "European Trade Blocs and American Exports," *E.R.R.*, 1960 Vol. I, p. 201.

hands of separate commissions, while policy-making and coordination of national policies are the province of separate Councils of Ministers, each including one representative of each member government. A 142-man European Parliament—legislative arm of all three communities—has approximately equal representation from France, Germany, Italy and the Benelux countries as a unit. The members sit as representatives of political parties rather than as national representatives. A Court of Justice, composed of seven judges, has sole power to decide whether acts of the various communities are within legal bounds. Its judgments are binding on all community members.

One of the major achievements of the Six has been a political rapprochement between France and Germany, brought about primarily by Germany's willingness to make economic sacrifices. France recently has overcome fears that French products would be unable to compete with German and British products, and it is beginning to take a more favorable attitude toward admission of other nations to the European Economic Community. E.E.C. executives have repeatedly declared that they do not intend to convert the Common Market into a protectionist citadel and that membership is open to all European nations willing to accept the political as well as the economic aims of the Treaty of Rome.

London's Leadership of Free Trade Association

The threat to British exports posed by the projected leveling of trade barriers within the Common Market gave rise to proposals for the establishment of a general European free trade area in association with the Common Market. Harold Macmillan, then Chancellor of the Exchequer, sponsored a scheme in November 1956 under which all 18 members of the Organization for European Economic Cooperation, including the six Common Market nations, would eventually have enjoyed free trade with one another. The countries not in the Common Market, however, would have retained the right to fix their own tariffs on trade with countries outside the free trade area. Under this arrangement, and with exclusion of agricultural and certain other commodities from free-trade treatment, Great Britain could have retained its Commonwealth preferences.

Before the plan for a Europe-wide free trade area could be brought to fruition, the Common Market countries

reached agreement to form an economic union. Continuing efforts to achieve wider economic cooperation were brought to an abrupt halt on Nov. 14, 1958, when the French Minister of Information, Jacques Soustelle, declared that France deemed it impossible "to establish the free trade area as it had been proposed."

Britain, together with Austria, Denmark, Norway, Portugal, Sweden, and Switzerland, then proceeded to draft a more modest plan for a European Free Trade Association. The EFTA convention was initialed in Stockholm on Jan. 3, 1960. Ratification by the national parliaments followed and the agreement came into force on May 3, 1960. The primary aim of the Outer Seven countries was to expand trade among themselves to compensate for any loss of trade with the Inner Six countries. Another aim was to increase their bargaining power in future trade negotiations with the Six. In London on Nov. 7, 1960, Prime Minister Macmillan called EFTA "a great stride towards a wider unity."

The association of the Seven differs from that of the Six mainly in that member countries are allowed to retain their own tariffs on imports from outside countries, whereas the countries of the Economic Community will in time have a single external tariff. The Seven are gradually abolishing tariffs on trade with one another in industrial goods, and special arrangements have been introduced to expand trade in agricultural and fishery products. Tariffs on trade among the Seven were reduced an additional 10 per cent on July 1, bringing the level of duties down to 30 per cent below the rates in force 12 months ago. The latest reduction, ahead of schedule, was reportedly made to keep EFTA tariff cuts in line with Common Market duty reductions and thus facilitate eventual integration of the two groups.

Obstacles to Entry Into Common Market

PROSPECTS for Great Britain's eventual entry into E.E.C. are difficult to assess. London has continued to hold back on formal application for membership, and Prime Minister Macmillan has emphasized that his government will take no decision on whether to enter into negotiations with the

Six until full reports on the attitude of the Commonwealth nations have been carefully considered.

Britain's reluctance to commit itself has gone so far that Macmillan on June 6 rejected a proposal that he issue a position paper outlining the advantages and disadvantages of joining the Six. Such a step, he feared, might crystallize opposition within Conservative ranks and also impair Britain's bargaining position. The *Economist* concluded: "The advantages, if spelled out, look so overwhelming that Europeans might conclude that they need to offer England no concessions at all." [11] However, opposition has been increasing. Labor unions, farmers, the Commonwealth nations, and some of Britain's partners in EFTA are all convinced that their respective interests would be endangered.

Opposition Among Britishers to Market Entry

Opposition to membership in the Common Market is shared by groups motivated by economic, political or cultural considerations. In Britain, where the *Daily Express* is leading a forceful opposition,[12] political and cultural reasons seem to predominate. One mother wrote that "I want my children to grow up British, not European."

Economists are not in agreement on whether participation in the Common Market would improve Britain's balance-of-payments position. They suggest that British capital and top-level personnel might be attracted to the more prosperous countries on the Continent. They further argue that the 15 per cent of British exports now going to the Common Market countries must not be allowed to prejudice continuation of the 45 per cent of British exports going to Commonwealth countries.

British labor has opposed entry into the Economic Community out of fear that the United Kingdom would be flooded with foreign workers willing to accept low wages. The picture of the Continent as a low-wage area, however, is no longer accurate. German living standards are higher than British, and those of the French and Italians are catching up. Moreover, British working hours are longer than in any country of Western Europe except the Netherlands.

[11] "Roads to Rome," *The Economist*, June 17, 1961, p. 1204.

[12] *The Daily Mirror*, *Financial Times*, *Guardian*, and *Economist* are all campaigning for British adherence to the Treaty of Rome.

A decision to adhere to the Treaty of Rome would entail the difficulty of accommodating Britain's EFTA partners, some of whom, like Sweden and Switzerland, are committed to political neutrality. Russia, moreover, would certainly never tolerate entry of Austria or Finland into a Western political alliance. The Norwegian foreign minister, Halvard Lange, nevertheless told the Storting (parliament) on June 5 that "On the basis of the Treaty of Rome it should be possible to find a formula which would also make it possible for neutral countries to become members."

At the conclusion of a two-day meeting in London on June 28, members of EFTA agreed to "coordinate their actions and to remain united . . . until satisfactory arrangements have been worked out . . . to meet the various legitimate interests of all members of EFTA and thus enable them all to participate from the same date in an integrated European market." Reginald Maudling, president of Britain's Board of Trade and chairman of the meeting, made clear that "any partial solution which created new economic divisions within Western Europe could not in any circumstances be regarded as satisfactory." This seemed to indicate that the only way to achieve a single European market was for the two groups to merge or for loose ties to be established between them. On the surface it ruled out the possibility that any one of the members would abandon the association and make a private arrangement with the Common Market. Britain could not join without the additional approval of members of the Commonwealth.

PROBLEMS RAISED BY COMMONWEALTH RELATIONS

The trade preferences enjoyed by members of the British Commonwealth, as well as the political ties which bind them together, greatly limit the United Kingdom's ability to negotiate with the Common Market. Britain, if a member of E.E.C., would no longer have freedom to pursue its own trade policy; all discussions with other members of the Commonwealth on commercial questions would have to be conducted through the Common Market's commission in Brussels.

Macmillan said in London last Nov. 7 that "We in the United Kingdom have a double part to play: We are Europeans but we are also at the center of a great Commonwealth." This association of independent and self-govern-

ing states, with no legal or formal obligations toward one another but nevertheless united by common allegiance to the Crown, is regarded by the British as one of their greatest achievements.

A year after the British Empire's transition to Commonwealth status had attained recognition in the Statute of Westminster (1931), an Imperial Economic Conference at Ottawa established a system of preferential tariffs governing trade among British countries. The declared purpose of the trade agreements signed on Aug. 20, 1932, was to expand purchases within the Commonwealth of many commodities that had previously been obtained largely from outside. Before World War II, British exports to other Commonwealth countries enjoyed a tariff preference of about 10 per cent; the preference has fallen below 7 per cent since 1948, and its importance for British exports has declined accordingly.[13]

On the other hand, the United Kingdom is the best customer of all other countries of the Commonwealth except Canada. Nearly all export products of Canada, India, Malaya and other Commonwealth countries enjoy free entry into the United Kingdom.[14] Britain's imports from the Commonwealth can be divided into three main categories: certain manufactured products, including textiles from Hong Kong, India, and Pakistan; tropical products, mostly foodstuffs, from Africa and the West Indies; and temperate zone products, mainly wheat, dairy products, and meat from Australia, Canada, and New Zealand. The latter agricultural products are at the heart of the current problem, because the exports of the various countries were built up to serve the British market and would be profoundly affected if the British market was merged into a common European market protected by import levies.[15]

In his statement in the House of Commons on May 17, the Lord Privy Seal, Edward Heath, said that Great Britain would "keep in close touch throughout with other Commonwealth governments." There would be "full consultation with them before we decided on the course to follow." Heath expressed the belief that Britain could maintain

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[13] Imports from the United Kingdom as a share of total imports of other Commonwealth countries dropped from 28 per cent in 1950 to 22 per cent in 1959.

[14] Fifty-six per cent of New Zealand's exports go to the United Kingdom as do 36 per cent of Ghana's, 34 per cent of Ceylon's, and 30 per cent of Australia's and India's exports.

[15] "Britain Into Europe," *Economist*, June 3, 1961, p. 981.

close connections with the Commonwealth, that, in fact, continuation of this relationship "is what Europe itself now desires."

> The personal ties which link individuals within the Commonwealth and the channels of trading which are so well established, the network of consultation which has grown up over the years, the Prime Minister's conference, all these can be maintained. Indeed, with the strengthening of our economic position we should be able to help in developing the Commonwealth and to strengthen the ties which bind its members together.

Talks between New Zealand ministers and Duncan Sandys, Secretary of State for Commonwealth Relations, on the question of Britain's possible entry into the Common Market took place in Wellington on July 6 and produced a promise by Sandys that Britain would seek special safeguards for New Zealand's export commodities. Sandys is reported to have made a similar promise in Australia, but that country entered strong objections to action by Britain in behalf of European unity "at the cost of division within the Commonwealth or elsewhere in the free world." A communiqué issued at Ottawa on July 14, when Sandys wound up conversations there, recorded "the grave concern of the Canadian government . . . about the political and economic effects which British membership in the European Economic Community would have on Canada and on the Commonwealth as a whole." Similar fears, differing only in degree, were expressed to representatives of the Macmillan government who visited the capitals of other Commonwealth countries.

British Farm Subsidies and European Tariffs

British farm subsidies constitute another major obstacle to the United Kingdom's entry into the Economic Community. E.E.C. has not yet formulated a common agricultural policy, and some of the member countries impose protective duties on farm products imported from other member countries as well as from outside nations. The Treaty of Rome made no definite provision for free trade in agriculture within the community; it merely laid down a policy of imposing tariffs on imports from outside countries to prevent an inflow of agricultural products that would upset the farm production of member countries. Britain's policy, on the other hand, is based on a desire to keep food prices at the world level. The British farmer is protected from low-cost imports by direct subsidies,

mostly in the form of deficiency payments that cost British taxpayers about $800 million a year.[16]

The domestic political effects of agreeing to a common external tariff that would result in raising British food prices are not lost on the Conservative government at London. However, British farmers do considerably better than French, German or Italian farmers in terms of productivity. Mechanization of large farms should enable the British to meet competition from any quarter.

A possible sticking point is that British farmers and farm hands enjoy much higher standards of living than most of their competitors. The average British farmer earns about $3,600 a year. While farm workers earn somewhat less than industrial workers, parity of farm with urban income has been almost achieved.[17] The system of state subsidies helps to bridge the remaining income gap. On the Continent, however, there is an enormous difference between earnings in the city and earnings in the country. With Britain in E.E.C., it might be hard to sustain farm living standards without special subsidies over a transition period.

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[16] Uwe Kitzinger, "Britain and the Common Market," *World Today*, June 1961, p. 252.

[17] "Is Agriculture an Obstacle?" *The Economist*, May 20, 1961, p. 754.

Proposals to Broaden Present Market

OBSTACLES in the way of Britain's entry into the Common Market seem so formidable that alternative solutions to the problems created by economic union of the European Six may have to be considered. Means of meeting objections from the Commonwealth, from EFTA partners, and from farmers, none of whom are in a particularly tractable mood, are not yet in sight. Any arrangement with E.E.C., moreover, must be acceptable to each of the Six. Meanwhile, British industry is pushing for a decision because, as long as Europe remains divided and uncertain of its economic alignment, it is impossible for business to make long-range investment and trade plans.

Proposed alternatives to British membership in the Common Market include plans for a single, all-inclusive European market and plans that would embrace the whole Atlantic community.[18] One scheme to build a bridge between the Six and the Seven was suggested last January by the German State Secretary for Economic Affairs, Muller-Armack. In broad outline the plan would set up a 13-nation customs union without internal tariffs but with an approximately uniform external tariff on most products. While the customs union would omit features of the E.E.C. economic union, it would leave E.E.C. free to continue its program of full economic integration without requiring Britain or other EFTA countries to take part in the integration measures.

Under the Muller-Armack plan, no effort would be made to integrate agricultural policies. Raw materials from all sources would be admitted to the entire customs union, either duty-free or at a low, uniform rate. This would give the countries of the Commonwealth producing primary commodities access to the new market on the Continent in return for loss of preferences in England.[19] Such a customs union appeals to the British, but it has not been well received by the Six and especially by the French, who see it as a variant of the old free-trade area proposal. The

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[18] Miriam Camps, "Four Approaches to the European Problem," *Political and Economic Planning*, March 27, 1961, p. 84.

[19] "E.E.C. and E.F.T.A. in 1961," *Report on Western Europe* (Chase Manhattan Bank), March-April 1961.

main reason for French opposition is that the plan concentrates on the economic differences of the two blocs and ignores the political implications of the Treaty of Rome.

Many American and British leaders hope that the treaty establishing the Organization for Economic Cooperation and Development, ratified by the U.S. Senate on March 16, will lead eventually to formation of an Atlantic economic union that would supersede both E.E.C. and EFTA.[20] Jean Monnet, French architect of proposals for Western unification, outlined a scheme for an Atlantic Community, based on a partnership between Europe and the United States, in a commencement address at Dartmouth College on June 11. Monnet emphasized the need for common institutions to meet common problems: "Just as the United States in their own days found it necessary to unite, just as Europe is now in the process of uniting, so the West must move towards some kind of union."

George V. Allen, former American diplomat, similarly on July 11 proposed a North Atlantic Common Market that would pave the way for the political federation "we can ultimately expect." Many persons think the chances for success of any such Atlantic association would be brighter if the European Economic Community were first strengthened by inclusion of Great Britain and other European countries not now among its members.

[20] O.E.C.D. includes the United States, Canada, Japan and 18 European nations whose primary motivation is to combat Communist economic aggression. The organization so far avoids any form of trade commitment but seeks to promote close economic cooperation and consultation among member countries.